

VZCZCXRO2128
PP RUEHIK
DE RUEHLO #2357/01 2891454
ZNR UUUUU ZZH
P 161454Z OCT 09
FM AMEMBASSY LONDON
TO RUEHC/SECSTATE WASHDC PRIORITY 3752
INFO RUCNMEM/EU MEMBER STATES COLLECTIVE PRIORITY
RUCPDO/DEPT OF COMMERCE WASHDC PRIORITY
RUEATRS/DEPT OF TREASURY WASHDC PRIORITY
RUEHBL/AMCONSUL BELFAST PRIORITY 1422
RUEHED/AMCONSUL EDINBURGH PRIORITY 1219

UNCLAS SECTION 01 OF 02 LONDON 002357

SIPDIS

Department for AF/EPS

E.O. 12958: N/A

TAGS: [ECON](#) [EFIN](#) [ETRD](#) [EINV](#) [PGOV](#) [UK](#)

SUBJECT: CONSERVATIVES ANNOUNCE PLANS TO CONFRONT "CLEAR AND PRESENT DANGER" POSED BY THE UK'S BUDGET DEFICIT

REF: London 2226

LONDON 00002357 001.3 OF 002

1. (U) Summary: Conservative plans to cut the UK's spiraling budget deficit were the focus of the recent Tory Party conference. Party leader David Cameron acknowledged painful cutbacks in public spending would be necessary to confront what Philip Hammond, Shadow Chief Secretary to the Treasury, called a "clear and present danger." Shadow Chancellor George Osborne outlined Tory plans to place public finances on a sustainable footing by freezing public sector wages, increasing the state retirement age, and delaying tax cuts. To create a hospitable business environment, the Tories would cut excessive regulation and introduce regulatory budgets, meaning no new regulatory burdens without removing old ones. A Tory government would maintain the UK's commitment to increase aid expenditure to 0.7 percent of national income by 2013 and would prioritize aid efforts in Afghanistan, Pakistan and Zimbabwe. The Conservatives stressed the importance of a binding climate deal in Copenhagen and called for faster development of clean coal, nuclear power and renewable energy. End summary.

"A Clear and Present Danger" - The UK Budget Deficit

2. (U) Painful cutbacks in public spending will have to be made after the upcoming general election to confront "Labour's Debt Crisis," party leader David Cameron said during his speech at the Conservative Party conference, October 5-8 in Manchester. Leaving the UK's budget deficit unchecked poses a clear and present danger for the UK economy, one that would ultimately undermine economic recovery, argued Philip Hammond, Shadow Chief Secretary to the Treasury. During his speech at the Conservative Party conference, Hammond said the hole in public finances is the most urgent challenge facing the country. In his remarks, Shadow Chancellor George Osborne unveiled Conservative plans to freeze public sector wages for one year, for all but the lowest paid workers, in 2011. A Conservative government, he said, would also increase the state retirement/pension age. For men, the pension age would rise from 65 to 66, beginning in 2016 and for women, in 2020. Government ministers would receive a 5 percent pay cut next year, while the overall number of MPs would be cut by 10 percent. The Conservatives, Hammond said, would create an Office of Financial Management to ensure value for money in public spending.

3. (U) Most Conservative proposals involved spending cuts, rather than changes to the tax system. Hammond said further significant tax increases would erode the UK's competitiveness - so public spending would bear the brunt of the burden. However, Osborne said the Conservatives would not immediately abolish the 50 percent tax rate on the highest earners, but said it should not be considered a permanent feature of the tax system. He said his plans to ensure only millionaires pay inheritance tax would have to be postponed

beyond the first Conservative Budget, but the pledge would be honored in the lifetime of a Parliament (i.e. five years).

Conservatives To Cut "Excessive Regulation"

¶4. (U) Cutting excessive regulation and making the UK more business friendly also forms part of the Conservative economic plan. Ken Clarke, Shadow Business Secretary, stressed the importance of increasing the amount of tax revenue generated by the private sector by making the UK more hospitable to business activity. In a Green Paper, published October 6, the Conservatives outlined plans to introduce a system of regulatory budgets across government, meaning no new regulations can be introduced without a compensating regulatory cut in the costs and burden elsewhere. Additionally, Clarke said each regulator will be given a 'sunset clause.' They will automatically cease to exist after a set period unless the regulators can prove their continuing usefulness. Clarke said economic recovery is dependent on nurturing high-added value, technologically advanced, well-managed, aggressively marketed companies.

Conservative Approach to Development

¶5. (U) Conservative development policy will be driven by three core principles: enterprise, accountability and transparency. During his speech to Party members, Andrew Mitchell, Shadow International Development Secretary, said the Conservatives were committed to reaching the U.N.-agreed goal of spending 0.7 percent of national income on aid by 2013. However, the aid budget will not be exempt, he said, from line-by-line scrutiny and "value for money" tests that will be imposed on all spending. A Tory government would introduce an Independent Aid Watchdog to scrutinize all aid spending. It will reduce, or abolish, funding for multilateral agencies like the UN

LONDON 00002357 002.3 OF 002

Development Program if they fail to deliver.

¶6. (U) Mitchell said the Conservatives would withdraw aid from countries such as China and Russia and prioritize aid in Afghanistan and Pakistan, to ensure it delivers results and supports the wider British missions. Alongside these countries, a Conservative government, he said, would focus on Zimbabwe. Once the country was on a clear path to democracy, a Conservative government would lead the Commonwealth and international community in a development program to galvanize Zimbabwe's private sector. (Reftel)

Conservatives Stress Importance of Copenhagen Deal

¶7. (U) Any climate deal determined in Copenhagen must be a rigorous one, argued Greg Clark, Shadow Energy and Climate Secretary. During his conference speech, Clark said the Copenhagen deal must bind the world in a common commitment to keep the rise in global temperatures to below two degrees centigrade. It should outline plans to help developing countries protect themselves against future floods, famine and drought and should stop the destruction of the rainforest.

¶8. (U) A Conservative government would immediately authorize five gigawatts of clean coal capacity. It would publish the planning guidance for new nuclear power to be built by 2017 and would speed up the deployment of nuclear energy. It would mandate the National Grid to extend its network out to sea to galvanize the deployment of offshore wind, marine and tidal energy. Clark said a Conservative government would provide incentives for biodigestion in towns and would allow communities that choose to host onshore wind farms to keep all of the business rates they generate for six years.

Response: Conservatives Fail Economic Credibility Test

¶9. (U) The Conservatives failed the economic credibility test during their conference, according to Liam Byrne, Labour's Chief Secretary to the Treasury. Speaking to the press, Byrne said George

Osborne delivered a speech that cost even more than it saved and created chaos and cuts that hit the middle classes to fund tax breaks for Britain's richest elite. He said David Cameron delivered an emotive but deceptive speech. It concealed the judgment calls Cameron has consistently got wrong and the real threat of what he would do, according to Byrne. Vince Cable, the Treasury spokesman for the Liberal Democrats, said the Tory plans would not deal with the structural deficit and amount to nothing more than a drop in the ocean. He said George Osborne paved the way for a return to traditional Tory policies - namely hitting the public sector now to pay for tax cuts for millionaires later.

SUSMAN